2013 Investment Climate Statement – Uganda

Overview of Foreign Investment Climate

Strong economic growth, open markets, and abundant natural resources provide good opportunities for knowledgeable investors in Uganda. The country maintains a liberal trade and foreign exchange regime, and largely adheres to IMF/World Bank programs to fight poverty, maintain macroeconomic stability and restructure the economy. With its significant oil reserves - an estimated 3.5 million barrels, 1.8 of them recoverable, with only 40% of the western Uganda oil-rich area explored - Uganda could eventually become one of the region's major oil producers with the commencement of commercial oil production, currently expected to begin in 2017. The Government is revising a range of laws and regulations to improve government accountability, open markets, develop infrastructure, and build a more attractive environment for foreign investment. However, sluggish bureaucracy, poor infrastructure, insufficient power supply, high energy and production costs, non-tariff barriers, corruption, and government interference in the private sector make Uganda a challenging investment climate.

Power supply remains one of the largest obstacles to investment, and Uganda's electricity network urgently needs renovation and expansion. Access to electricity countrywide is a meager 12%, and only 5% of the rural population has access to electricity. With the commissioning of the new 250-megawatt Bujagali Hydropower Project in 2011, Uganda is currently able to meet its power demand, but with demand growing at 10% per year, it is expected to outstrip supply again by 2014. The Government is planning to build the 600-megawatt Karuma hydropower project, but the project has been dogged with delays, legal disputes, and corruption allegations, and is not likely to be commissioned until 2017. In the meantime, Uganda is working to expand its power supply by constructing a number of micro-hydro projects along the Nile River and is promoting the development of sources of renewable energy. In 2010, the Electricity Regulatory Authority announced renewable energy feed-in tariffs to encourage greater private sector participation in power generation. In 2011, the Uganda Energy Credit Capitalisation Company (UECC) was launched to enhance private sector financing for small-scale renewable energy projects, and the VAT tax was eliminated on imports for solar energy components.

High transportation costs are another constraint on Uganda's economy. Uganda's dilapidated road and bridge infrastructure needs considerable investment, its railway system is in disrepair, and air freight charges are among the highest in the region. A two-lane highway from Kenya remains the primary route for 80% of Uganda's trade, making transportation slow, costly and susceptible to disruption. In 2007, election-related violence in Kenya virtually halted imports into Uganda for over two months, causing a spike in commodity and fuel prices. Also a problem is landlocked Uganda's reliance on Kenya's Mombasa port, where chronic congestion increasingly results in costly delays. Uganda also relies on the refinery at Mombasa for all of its fuel, and the cost of transport to Uganda keeps fuel prices high. The Government is planning to construct an oil refinery, which could eventually reduce Uganda's reliance on expensive imported fuel, but planning for the refinery is still in the early stages. Uganda also hopes to shift more cargo transit from trucking to rail as the 2,350-kilometer Kampala-Mombasa line is gradually upgraded and expanded in a five-year project financed by the Rift Valley Railways

Consortium, the International Finance Corporation, and other finance institutions. Uganda and Tanzania are also exploring the possibility of building a railway line between Tanzania's port at Tanga and Musoma on Lake Victoria, a project which would give Uganda an alternative to relying on Mombasa for all its shipping. In December 2011, the two countries signed a memorandum of understanding with a Chinese engineering and construction firm to conduct a feasibility study for the $3 billion project, but the future of the project remains unclear. Aviation continues to grow, and in 2012, passenger traffic through Uganda's Entebbe International Airport was up 14.7% from 2011, with more than 1.2 million travelers.

Uganda's social services systems are lagging behind the demand generated by economic expansion and population growth. At 3.2% per year, Uganda's population growth rate is one of the fastest in the world, and its current total population of 34.1 million is expected to rise to 54 million by 2025. While creating potential markets for products, the country's population growth is also increasing the strain on social services, underfunded schools and hospitals, infrastructure, forests, water, and land resources. The high level of HIV/AIDS infection in the country is also taxing social services. Uganda developed a model program to combat HIV/AIDS, and prevalence rates decreased from close to 20% in the 1990s to 6.4% in 2006. However, this trend has recently shown a troubling reversal, with HIV/AIDS prevalence rising to 7.3% in 2012.

Uganda's economy experienced robust growth the past decade, especially in the financial services, construction, manufacturing, transportation, telecommunications, energy, infrastructure, and oil and gas sectors. But in the last two years, the economy has slowed, with GDP growth falling from 6.7% in fiscal year 2010/11 to just 3.4% in 2011/12, due largely to continuing trouble in the Eurozone – a major destination for Ugandan exports – and to tight monetary policy. In response to skyrocketing inflation, which rose from 5% in January, 2011 to an 18-year high of 30.4% in October, 2011, the Bank of Uganda began raising interest rates in mid-2012. As a result, commercial lending rates soared to as high as 34% in late 2012, leading to rising loan defaults and business closures, and slowed investment and growth. By December 2012, inflation had been tamed to just 5.5% - slightly above the official target rate of 5% - but commercial lending rates remained high at 23.5%. In late 2012, the International Monetary Fund (IMF) lowered its 2012/13 GDP growth projections for Uganda to 4.3% from 5%, after foreign donors suspended nearly $300 million in foreign aid over allegations that as much as $20 million in foreign aid meant for reconstruction and poverty reduction in Northern Uganda had been stolen by officials.

Recently, GOU initiatives have focused on infrastructure investment, the promotion of Foreign Direct Investment (FDI), value-added manufacturing and increased international trade. FDI rose to $894 million in 2011, up from $817 million in 2010. The Bank of Uganda predicts it will to decline to around $700 in 2012, due primarily to ongoing troubles in the Eurozone, - but that FDI will increase again in 2013 as the country continues to expand its bond market and development of the oil sector picks up Political wrangling, lawsuits, and the lack of a legal framework for the oil industry slowed investment in the oil sector in 2011, but in 2012 Tullow Oil farmed down two-thirds of its oil interests in to China National Offshore Oil Corporation (CNOOC) and French oil major Total in a much-anticipated $2.9 billion deal. In December, 2012, Uganda finally passed its delayed legislation governing oil exploration and production, but bills on oil revenue management and refining are still pending.

Openness to, and Restrictions Upon, Foreign Investment

Uganda is open to foreign investment and provides tax incentives for medium and long-term foreign investors. Based on ease of doing business, trade freedom, property rights, and fiscal and monetary policy, the Heritage Foundation's 2012 Index of Economic Freedom ranked Uganda's economy 78th freest of 179 countries and 8th freest among the 46 sub-Saharan African countries on the index. However, due to perceptions that widespread corruption even at the highest levels of government makes it difficult for foreign businesses to compete, Uganda ranked low at 28th of 46 sub-Saharan African countries on measures of corruption.

Since coming to power in 1986, President Yoweri Museveni has established relative political stability and economic growth, with policies to liberalize the Ugandan economy and encourage foreign businesses to set up operations in Uganda, particularly in value-added manufacturing and agro-processing. In 2001, Uganda created the Uganda Investment Authority (UIA) to assist investors, and although the process of registering a business in Uganda remains cumbersome, in recent years UIA has introduced administrative changes to improve the process. In 2009, in response to criticism that UIA catered only to foreign investors, UIA established a Domestic Investment Division to assist small and medium enterprises (SMEs). In 2011, "desk officers" from Immigration, the Uganda Revenue Authority, and the Uganda Registration Services Bureau were placed in UIA to allow investors to register their business, get a tax ID, open a tax file, and apply for investments licenses and work permits, all under one roof. The Uganda Registration Services Bureau (URSB) recently computerized its company registry, reducing the time and number of steps required to start a business, and revisions to the Investment Code now pending in Parliament would further streamline the process.

Uganda is moving away from a much-criticized emphasis on ad hoc, venture-specific incentives for potential investors in favor of an approach aimed at leveling the playing field for all investors. Previously, UIA gave foreign investors certificates making them eligible for tax holidays and exemptions. Due in part to criticism that this approach favored foreign investors over domestic ones, UIA abandoned this practice, and Uganda’s investment incentives are now codified in its tax laws. In order to boost domestic revenues, Uganda made some significant changes to its tax code in 2011, including the introduction of transfer pricing regulations and the elimination of the "investment trader status," which previously allowed monthly recouping of VAT on all imports and services related to the initial construction of an investment.

In addition to tax incentives, Uganda offers investment incentives for investors in four "priority" sectors: information and communication technology, tourism, value-added agriculture, and value-added investments in mineral extraction. Uganda is also hoping to lure investors with its long-term plan to build 22 fully-serviced industrial parks in Uganda’s largest urban centers. Investors in priority sectors can get a 49-year lease in an industrial park without paying the usual $80,000 lease fee. Since 2008, UIA has allocated land to 277 investors in the Namanve Industrial Park, which is under development on the outskirts of Kampala, and several large international companies are already operating there. The park, which will eventually cover 650-hectares, is divided into four main industrial clusters: food processing, light industry and services, heavy industry, and another for SMEs. Other parks are planned for Jinja, Kasese, Mbarara, Mbale, Gulu, and Soroti. For more information on incentives, see the section below entitled "Performance Requirements and Incentives." Investors can also find information on investor incentives on the UIA website at www.ugandainvest.com.

According to UIA, most new foreign investments in 2011 came from Kenya, followed by Norway, India, China and Iran. U.S. foreign investment in Uganda remains relatively small, with new U.S. investments in 2011 totaling nearly $2 million, making the U.S. the 22nd largest investor in Uganda. The main areas of foreign investment were in manufacturing, financial services and real estate, and agriculture, forestry and fish. Other areas of significant investment were in power, oil, construction and mining. In 2011, UIA began to more closely scrutinize foreign investment license applicants, rejecting a greater number of those lacking solid business plans and capital. In response to growing perceptions that foreign workers without work permits were taking local jobs, the Government also began more strictly enforcing its foreign labor laws. Foreign investors in Uganda should be aware that projects that could impact the environment require an Environmental Impact Assessment (EIA) carried out by the National Environment Management Authority (NEMA). The requirement for EIAs applies to both local and foreign investors.

Ugandan policies, laws, and regulations are generally favorable towards foreign investors, but reforms are needed, and in recent years Uganda has taken a number of measures to improve its investment climate and streamline bureaucracy. In 2004, President Museveni launched the Presidential Investors Roundtable (PIRT), a forum in which he solicits input from national and international investors on ways to accelerate reform and increase private investment and competitiveness in Uganda. One proposal to emerge from the PIRT was to establish a Ugandan infrastructure fund, and feasibility studies for the prospective fund are currently under way. In 2006, the World Bank provided a $70 million credit for the Private Sector Competitiveness Project, a program to enhance enterprise competitiveness, improve the business environment and develop infrastructure and financial services. The project also aims to revamp the land registry system, modernize Uganda's business registration service, support the Uganda Law Reform Commission in the revision of the commercial legislation, develop private sector capacity and skills, boost private sector productivity, and raise the quality, standards, and reliability of micro, small, and medium-sized enterprises.

In 2010, with support from the World Bank, Uganda launched its Uganda Investment Climate Program (UICP) to implement reforms to improve the business environment, streamline its regulatory regime, and develop better investment policies. To this end, in 2011, the Ministry of Finance appointed Business Licensing Reform Committee to make specific recommendations to the Government on ways to reduce bureaucratic burdens to doing business in Uganda. In a March 2012 report, the committee recommended that the government eliminate dozens of licenses and streamline dozens of others, noting that those reforms could reduce the cost of establishing a business in Uganda by 25%. Uganda is currently reviewing or revising a number of commercial laws to reduce the cost of doing business. In 2011, Uganda passed its Bankruptcy Act, and is now drafting regulations to operationalize the law, which will speed up bankruptcy procedures and address cross-border insolvency cases. Especially critical to improving the investment climate in Uganda will be passage of the Anti-Counterfeiting and Anti-Money Laundering bills, which are currently pending in Parliament. According to a 2011 Parliamentary report on the economy, the sale of counterfeit goods accounts for as much as 10% of international trade in Uganda. The prevalence of counterfeit goods deters foreign companies from entering the Ugandan market and results in losses of jobs, business opportunities, and tax revenues.

Under Ugandan law, foreign investors may form 100% foreign-owned limited or unlimited liability companies and majority or minority joint ventures with Ugandan partners without restrictions. The Investment Code allows foreign participation in any industrial sector except those touching on national security or requiring the ownership of land. Licensing from UIA requires a commitment to invest over $100,000 over three years. (See "Performance Requirements and Incentives" below.) Most foreign investors establish themselves as limited liability companies. Ugandan law also permits foreign investors to acquire domestic enterprises or establish greenfield ventures. If passed, the amended Companies Act will allow for the creation of single-person companies, permit the registration of companies incorporated outside of Uganda, and provide new provisions for share capital allotments and transfers. For a full description of the type of companies foreign firms are allowed to establish, visit the UIA website at www.ugandainvest.com, or see the Business in Development Network Guide to Uganda available at www.bidnetwork.org.

Ugandan courts generally uphold the sanctity of contracts, though judicial corruption and procedural delays caused by well-connected defendants are a serious challenge. At times, Ugandan government agencies are reluctant to honor judicial remedies issued by the courts. Courts apply the principles of English common law. Under current debt collection laws, creditors can prove their debts to a court-appointed receiver for payment. Secured debtors receive payment priority.

In recent years, the Uganda Revenue Authority (URA) has improved its efficiency, boosted transparency, and increased tax compliance. Some foreign investors have complained that tax rules are unclear and subject to change, and a number of foreign companies have had tax disputes with URA in recent years, including one that has led to international arbitration over capital gains taxes on sales of oil assets. Individuals are taxed at rates between zero and 30%, corporate tax is 30%, the Value Added Tax (VAT) is 18%, and capital gains taxes on profits accrued after 1998 are 30%.

The telecom sector has boomed since 2006, when the Government lifted a moratorium on new mobile telephone operator licenses, and seven companies are now in the market. This has generated fierce competition, lower prices, wider coverage, and greater telephone penetration among the population and throughout the country. Uganda now has nearly a million Internet subscribers, 15.5 million cell phone users (up from 14.7 million a year ago), and some 5.7 million Internet users (up from 4.6 million a year ago). But the rapid growth has also lead to service problems, as rising demand has exceeded network capacity. In 2011, Uganda launched a $117 million national fiber-optic network to take advantage of the arrival of undersea fiber-optic cables in East Africa, and in 2012 it began the process of migrating from analogue to digital broadcasting. These projects, along with government plans to enhance cybersecurity in the country, implement e-governance initiatives, and increase technological integration with neighboring countries in the East African Community, are opening up excellent investment opportunities for international communications technology firms.

Measure	Year	Index/Ranking
TI Corruption Index	2012	29 (130/174)
Heritage Economic Freedom	2012	61.9 (78/179)
World Bank Doing Business	2013	120/185
MCC Gov't Effectiveness	2013	.37 (84%)
MCC Rule of Law	2013	.49 (89%)
MCC Control of Corruption	2013	-.03 (49%)
MCC Fiscal Policy	2013	-4.3 (32%)
MCC Trade Policy	2013	73.6 (75%)
MCC Regulatory Quality	2013	.65 (98%)
MCC Business Start Up	2013	.843 (33%)
MCC Land Rights Access	2013	.83 (98%)
MCC Natural Resource Mgmt	2013	65.3 (55%)

Conversion and Transfer Policies

Uganda keeps open capital accounts, and Ugandan law imposes no restrictions on capital transfers in and out of Uganda. Investors can obtain foreign exchange and make transfers at commercial banks without approval from the Bank of Uganda in order to repatriate profits and dividends, and make payments for imports and services. Investors have reported no problems with their ability to perform currency transactions.

Expropriation and Compensation

The mass expropriation of Asian properties under the Idi Amin regime in the 1970s was the largest violation of property rights in Uganda's history. With the passage of the Expropriated Properties Act of 1982, the Government began to right this historical wrong, and by 1997 approximately 4,000 properties had been returned to their owners, and 1,500 others were sold off and the former owners compensated. There has been no case of expropriation since Museveni came to power in 1986. The Ugandan Constitution states that the interests of a licensed investor may only be expropriated when it "is necessary for public use or in the interest of defense, public safety, public order, public morality or public health..." The Constitution also guarantees "prompt payment of fair and adequate compensation, prior to the taking of possession or acquisition of the property." The Constitution guarantees any person who has an interest or right over expropriated property access to a court of law. Uganda is a member of the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID).

Dispute Settlement

Uganda is reforming its commercial justice system, which now includes mandatory mediation for all commercial disputes to help reduce case backlogs. Uganda opened its first Commercial Court in 1996 to deliver an efficient, expeditious, and cost-effective mode of adjudicating commercial disputes. The court has four commercial court judges and two deputy registrars. In 2012, the court handled nearly 1300 commercial cases, and the caseload is expected to steadily increase as investment continues to flow into Uganda's oil sector. Despite a lack of funds and space, the commercial courts dispose of disputes within about seven months, faster than civil courts have traditionally disposed of commercial cases. The court has 17 mediators, and through pre-trial conferences, approximately 80% of disputes are now settled out of court, saving time and money. Because Ugandan law stipulates that the Court be "proactive," the Court engages regularly with the private sector through its Court Users Committee, which includes representatives from banks, insurance companies and the manufacturing sector. Through this forum, the court has worked with Uganda's tax authority to reduce the number of tax cases resulting in litigation, and has persuaded banks to opt for loan restructuring in default cases that were previously ending up in court. Some investors have complained that the legal process favors local companies, that political pressures can disrupt and delay outcomes, and that government agencies can be slow or reluctant to follow rulings. The Center of Arbitration for Dispute Resolution (CADER) can assist in commercial disputes. The court has also recently increased transparency and efficiency by taking steps toward creating an "e-court environment" – a process it expects to complete by 2015. In addition to digitizing its records, the court now digitally records court proceedings, a move which will speed up processing the caseload by enabling cases to be heard from remote parts of the country.

Uganda is a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Pursuant to the Reciprocal Enforcement of Judgment Act, judgments of foreign courts are accepted and enforced by Ugandan courts where those foreign courts accept and enforce the judgments of Ugandan courts. Monetary judgments are generally made in local currency. Due to antiquated laws that codify penalties using specific shilling amounts, in some cases penalties are not a sufficient deterrent due to currency depreciation. However, Uganda is slowly rectifying this, modifying out-dated laws, and codifying penalties in new laws using currency points. Pursuant to Section 73 of the Arbitration and Conciliation Act, the Government accepts binding arbitration with foreign investors. The act, which incorporates the 1958 New York Convention, also authorizes binding arbitration between private parties.

Performance Requirements/Incentives

There are no mandatory performance requirements in the Investment Code, but Uganda's regulatory authorities mandate standards such as staff qualifications as licensing conditions for some categories of investment. Uganda's National Environment Management Authority (NEMA) is responsible for enforcing environmental regulations. The most basic licensing condition is that investors creating 100% foreign-owned enterprises should commit in their proposals to invest a minimum of $100,000 to their projects over a course of three years. This amount can include pre-investment activities and the cost of land, equipment, buildings, machinery, and construction. Foreign-owned banks and insurance companies are also subject to higher paid-up capital requirements than are domestic firms. Ugandan law limits foreign ownership of land. For more information on land ownership, see "Right to Private Ownership and Establishment," below.

Uganda’s fiscal incentive package for both domestic and foreign investors provides generous capital recovery terms, particularly for medium- and long-term investors whose projects entail significant plant and machinery costs and involve significant training. In Kampala, 50% of capital allowances for plants and machinery are deductible from a company's income on a one-time basis; elsewhere in Uganda, 75% of those capital allowances are deductible. 100% of training costs are deductible on a one-time basis. A range of annual VAT deferments, deductions, exemptions and depreciation allowances also exist, resulting in investors often paying no tax at all in the first year of their investment, and usually paying substantially less than the 30% corporate tax rate in the subsequent years of their investment. The Government also provides a 10-year tax holiday for investors engaged in export-oriented production and, if the investment is located more than 25 kilometers away from Kampala, for agro-processing investors. Investors can find information on investor incentives and capital allowances on the UIA website at www.ugandainvest.com, and at URA's website www.ura.go.ug.

Right to Private Ownership and Establishment

Businesses generally deem acquisition of land with a clean title as one of their biggest challenges, and land disputes are common in Uganda. Uganda's Commercial Court has a Land Division that deals specifically with land disputes. The World Bank's 2013 Doing Business Survey, which ranked Uganda 120th out of 185 countries surveyed for ease of doing business, noted that registering a property in Uganda requires 12 procedures and takes an average 52 days. The Private Sector Foundation Uganda, with a loan from the World Bank, is in the process of creating a new land registry and intends to establish five land offices throughout the country.

The Land Act of 1998 codified Uganda’s land tenure system, but the system and rules are complex. Foreign companies or foreign individuals may not own land. However, with UIA approval they may hold it under 49-year leases. Foreigners must seek Land Ministry approval through the UIA to lease land over 50 acres for agricultural or animal production purposes. Uganda has not initiated any changes to allow foreign investors to purchase freehold property. However, some foreign investors circumvent land ownership restrictions by establishing locally incorporated companies.

The issue of land and title in Uganda is complicated by the existence of four different land tenure systems: customary, mailoland, freehold, and leasehold. Customary land refers to rural land governed by the unwritten, customary laws of a specific area. Customary land is difficult to use because no titles or surveys of such land exist and contracts are difficult to enforce in courts of law. Further, banks do not accept customary land as collateral. Mailoland is land that was granted to individuals and churches mostly in central Uganda during the colonial period. Mailoland cannot be owned by foreigners and the use of such land is subject to the agreement of bonafide or lawful occupants, who may not own the land but have the right to reside there. Mailoland is also problematic for foreign investors seeking secure, court-enforceable use of land. The 2009 Land Act complicated this further by giving occupants and squatters increased rights on mailoland at the expense of owner rights. Freehold land is the system in which registered land is owned permanently. It is available only to Ugandan citizens, though it can be leased to foreigners. It can be also used as collateral for bank loans. Leasehold land is land leased by freeholders and is most commonly used by foreign investors. Foreigners may obtain contracts for leases of between 49 and 99 years on leasehold. It can be used as collateral on loans, depending on the length of the lease.

Protection of Property Rights

The Uganda Revenue Authority, Ugandan Customs, and the Ugandan National Bureau of Standards share enforcement of Uganda's minimal existing counterfeit laws, but lack the funding and resources to adequately enforce these laws. An Anti-Counterfeiting Bill pending in Parliament would, if passed, considerably clarify and strengthen Uganda's laws with stiffer penalties and enforcement guidelines.

Most counterfeit goods entering Uganda are manufactured in China and India. Counterfeit CDs, DVDs, and computer software are openly sold in Uganda's market places, and counterfeit pharmaceuticals and agricultural inputs are becoming an increasing problem. American manufacturers of consumer goods, particularly of shoe polish, batteries, feminine hygiene products, ink cartridges and chemicals have complained that counterfeiters are damaging their markets as fake goods serve as a deterrent to future foreign direct investment and damage brand names.

Uganda signed the World Intellectual Property Organization's Patent Law Treaty in 2000, but has not yet ratified it. Under Section 31 of the Patents Statute of 1991, the Registrar of Patents awards patents for an initial period of 15 years, with a possible five-year extension if a request is made one month before expiration of the original term. The 2006 Copyrights and Neighbouring Act and the 2010 Trademarks Act also provide protection for intellectual property rights. Uganda's Commercial court is hearing an increasing number of intellectual property and trademark cases, especially by artists and musicians in Uganda's Performing Arts Rights Society. But few cases of counterfeiting have come before the court because companies are not actively taking measures to protect their brands in Uganda. The Court has the power to impound goods and impose injunctions. It also has the power to impose financial damages on trademark and copyright violators, but has not done so due to the difficulty of assessing actual financial damages from violations.

Transparency of the Regulatory System

Ugandan laws and regulations are published in the Government Gazette, but the regulatory system lacks internal transparency and varies substantially by regulatory body. Government agencies often have hearings, both public and private, where interested parties have an opportunity to comment on draft legislation and regulations. Agencies do not always observe all legal provisions, however, failing to hold hearings, ignoring the requirement for public tenders, ignoring regulatory violations, or providing other types of assistance to well-connected local businessmen. The UIA provides assistance to potential investors in navigating the regulatory process.

Many Ugandan agencies require potential and current investors to cut through substantial amounts of red tape for normal business transactions. The World Bank's 2013 Doing Business report ranked Uganda 120 of 185 countries for ease of doing business. The study found that on average it takes 15 procedures and 33 days to start a business in Uganda. Starting a business in certain sectors, such as mining, may take substantially longer. General infrastructure hindrances such as poor telecommunications and increasing amounts of traffic in Kampala slow down certain processes. Investors complain that government officials often require firms interested in government procurement contracts to provide under-the-table cash payments in person at local agency offices. Regulatory inefficiencies and corruption negatively affect foreign and domestic firms equally.

The Bank of Uganda is reasonably transparent, but the legal system is less so. Courts, particularly at the upper levels, have made independent judgments in the past, but these judgments are sometimes ignored and some parties to legal proceedings take advantage of the legal system's inherent delays and incoherence to manipulate the judicial process.

Efficient Capital Markets and Portfolio Investment

The Bank of Uganda remains one of the most respected central banks in sub-Saharan Africa for its success in pursuing open markets, a stable currency, and relatively low inflation. Increased supervision of the banking sector in recent years has helped it recover from a banking crisis in the late 1990s, when several banks failed or were closed down. In 2010, the Bank of Uganda required commercial banks to raise their capital from a minimum $4 million to $25 million, and all banks have complied, some by attracting Tier I equity capital. Commercial banking assets rose to $5.93 billion in 2012, up from $5.3 billion in 2011, and from $4.9 billion in 2008. Most banks are foreign owned, including by major international institutions such as Citigroup, Barclays, Stanbic, Standard Chartered, and Bank of Baroda. According to the Bank of Uganda, at the end of fiscal year 2010/2011, only 1.8% of assets were in non-performing loans, but after commercial interest rates skyrocketed in 2011 and remained high throughout 2012, defaults rose and the percentage of non-performing loans more than doubled, rising to 4%.

Capital markets are open to foreign investors. The Government imposes a 15% withholding tax on interest and dividends. Credit is allocated on market terms, and rates are high. Following the lifting of the moratorium on new banks in 2007, a number of new banks have entered the market, bringing the current total to 24. Competitiveness and innovation have also steadily increased, but lending to the private sector is still relatively low. In recent years, low rates of return on government-issued bills and bonds induced banks to begin shifting their focus to commercial lending. Today, holdings of Government Treasury bills comprise roughly a third of commercial loan portfolios. Commercial bank lending has grown considerably in recent years. According to the Bank of Uganda, during the 2011/2012 fiscal year, as commercial interest rates soared to over 30%, commercial bank lending to the private sector slowed drastically, growing by only 11%, down from 44% in 2010/2011. By the end of 2012, commercial rates were down slightly to 23.5, but loan defaults were up, banks were reluctant to lend, and many were lending only in U.S. dollars. In 2011/2012, lending in dollars rose 50%, but lending in Ugandan shillings fell 11%.

The Capital Markets Authority, established in 1996 as the securities regulator in Uganda, is responsible for licensing brokers, dealers and overseeing the Uganda Securities Exchange, which was inaugurated in June 1997 and is now trading the stock of 15 companies. Market capitalization of the exchange rose to $6.26 billion in 2012, up from $4.7 billion in 2011, with the listing of UMEME, Uganda's power distributor, the issuance of 40 billion bonus shares by Stanbic Bank, and the issuance of bonds by the African Development Bank. Foreign-owned companies are allowed to trade on the stock exchange, subject to some share issuance requirements, and the Kampala exchange contains cross-listings of seven Kenyan companies: Equity Bank, Kenya Airways, East African Breweries, Jubilee Holdings, Kenya Commercial Bank, Nation Media Group, and Centum Investment.

In 2004, the Bank of Uganda added ten-year bonds to its two-, three-, five-year offerings to facilitate its control of liquidity and inflation and to further develop the bond market. The Government hopes that by creating a benchmark yield curve it will encourage private companies to access the debt markets. Some large local businesses have been reluctant to turn to the capital markets, however, in part because strict disclosure requirements would force them to adhere to higher international auditing standards than most Ugandan businesses normally achieve. Seven companies currently provide brokerage services, including one American-owned firm, Crested Stocks and Securities. There are no restrictions prohibiting investors from pooling funds to be invested on the exchange and in government treasury bills and Treasury bonds. In December 2004, African Alliance Uganda was licensed to operate the first Ugandan collective investment scheme.

According to the Bank of Uganda, Foreign Direct Investment (FDI) in 2011 was $894 million, with most FDI coming from China, followed by India, Kenya, and South Africa. FDI from Europe, once the greatest source for Uganda, continues to decline, and FDI from the U.S., which peaked at $100 million in 2006, remains low since risk-averse investors left after the financial crisis of 2008. The Bank of Uganda estimates FDI fell significantly in 2012, to just $700 million, due primarily to trouble in the Eurozone and unease over coming elections in Kenya.

In 2011, Uganda’s bond market thrived as high interest rates began to lure back some of the foreign investors who had left after the 2008 financial crisis. According to the Bank of Uganda, the percentage of foreign investors buying Ugandan bonds and Treasury bills rose from zero in July, 2011 to 12% in December, 2011. Predictably, falling interest rates in 2012 prompted some foreign investors to pull out, but as of December, 2012, 9.4% of Ugandan bonds still remained in the hands of offshore investors. In spite of the ongoing global economic slowdown, remittances remain an important source of foreign exchange for Uganda. The Bank of Uganda estimates that in 2012 Ugandans living abroad sent home $879 million in remittances, up from $729.7 million in 2011. Previously most remittances came from Europe, but now sub-Saharan African countries such as South Africa and Botswana are main sources of remittances.

Competition from State-Owned Enterprises

The Government began a privatization program in 1993 that has resulted in the complete or partial divestiture of the majority of Uganda's public enterprises, with just a few remaining in State hands. The program has attracted foreign investors primarily in the agribusiness, hotel, and banking sectors. Though generally deemed successful, some observers have questioned the transparency of certain transactions carried out in the name of privatization, arguing that the benefits of the most lucrative sales went to insiders.

State-owned enterprises currently exist in a number of sectors, including mining, housing, electricity, and transport. In some of these sectors, the Government is not directly involved in the running of the business, but remains a shareholder. The Government is open to competition from private investors in all of these sectors. Uganda is also planning to establish a National Oil Company, and although it does not currently have a sovereign wealth fund, that may change in the near future when revenues from commercial oil production start flowing in.

Corporate Social Responsibility

In Uganda, corporate social responsibility (CSR) projects are expected from many of the larger foreign enterprises. This is especially true in the extractive industries and other sectors in which regular business operations do not directly benefit the community. While consumer buying habits are rarely based on CSR, some large corporations, including foreign oil companies, have experienced community pressure and social unrest when local residents do not see any direct benefit from their presence.

Political Violence

Uganda has succeeded in achieving a level of stability since President Museveni came to power in 1986. However, the regional terrorism threat remains high, and there have been periodic eruptions of political violence in recent years. Rebel groups fighting in eastern Democratic Republic of Congo are creating instability on Uganda's borders, resulting in an inflow of thousands of refugees into Uganda. Investors have also been concerned about the potential for instability in neighboring Kenya in the wake of the presidential election in 2013. In 2008, elections in Kenya resulted in political violence that disrupted trade in the East Africa region.

Political tension has been rising within Uganda in recent years. In February 2011, Uganda held elections in which President Museveni was elected to a fourth consecutive term with 68% of the vote. The elections and campaign period were generally peaceful, but observers, including the United States, expressed concern about the diversion of government resources for partisan campaigning, the heavy deployment of security forces on election day, disorganization at polling stations, and the absence of many registered voters' names from the voter rolls. In the months following the election, political tensions were exacerbated as Uganda plunged into an economic crisis. A series of "Walk-to-Work" protests against skyrocketing inflation in April and May, 2011 left at least 10 people dead, including a 2-year old child, as security forces used live ammunition, tear gas, rubber bullets, and water cannons to disrupt protestors. Members of the opposition were arrested, sometimes violently, and some political activists were charged with treason.

In 2012, as the country celebrated its 50th anniversary of independence, the country enjoyed a period of relative calm, with fewer public protests. But political fights, especially over governance of the oil sector became increasingly contentious. Prominent opposition politicians were arrested and journalists faced incidents of harassment and intimidation. In January 2013, President Museveni and top military officials prompted concerns domestically and from the international community after they were reported saying that domestic political chaos in Uganda could prompt the military to intervene.

The threat of terrorism remains high in Uganda. On July 11, 2010, 76 people, including one American, were killed and many more injured in twin bombings in Kampala. Al-Shabaab, the Somalia-based U.S.-designated Foreign Terrorist Organization, was responsible for the attack. Information obtained from the investigation into the bombings indicated that Americans and westerners in general were among the intended targets. The State Department has issued a Worldwide Caution warning U.S. citizens to be alert to the possibility of additional terrorist attacks in Uganda. The U.S. Embassy continues to encourage U.S. citizens to carefully consider the risk of attending or being near large public gatherings, especially those with large numbers of westerners and no visible security presence, as these gatherings can be targeted by extremist or terrorist groups. Citizens are also advised that soft targets such as hotels, bars, restaurants, and places of worship are also vulnerable to attacks. High levels of criminal activity remain a problem in Uganda, and spontaneous demonstrations can sometimes occur in Kampala and other cities. Although infrequent, these demonstrations can become violent and should be avoided. U.S. citizens considering travel, employment, or investment in Uganda should read the Country Specific Information available at www.travel.state.gov for current security information.

The threat from various rebel groups in Uganda has subsided significantly in recent years. The Lord's Resistance Army (LRA) was expelled from Uganda in 2006 and is now operating in remote areas of the border region between the Democratic Republic of Congo (DRC), the Central African Republic, and South Sudan. There have been no LRA attacks in Uganda since 2006, and improved security in the region has allowed the vast majority of the 1.8 million people displaced by the conflict to return home. In December 2008, the Governments of Uganda, DRC, and Sudan began joint military operations against the LRA, and in 2011 the United States deployed some U.S. military personnel to the region to provide technical assistance and advice to African forces pursuing the LRA.

The security situation in the remote north-eastern region of Uganda remains somewhat volatile due to armed cattle rustlers of the Karamojong and related ethnic groups raiding cattle and propagating violence.

Corruption

Corruption is a serious problem in Uganda. A December 2012 report on corruption by Uganda's Inspectorate of Government characterized corruption in Uganda as "rampant" and noted that "corruption causes distortions of great magnitude in the Ugandan economy." The report cited public procurement as the area most vulnerable to abuse, and noted that 9.4% of total contract values went to corrupt payments in procurements both at the local and central government levels. Throughout 2012, a series of corruption scandals involving government officials dominated the headlines. In October, 2012, the World Bank and a number of European countries providing direct budget support to Uganda suspended nearly $300 million in aid after an investigation revealed that officials in the Office of the Prime Minister had stolen as much as $20 million in foreign aid meant for reconstruction and poverty-reduction in Northern Uganda. Transparency International’s (TI) corruption perceptions index ranked Uganda as 130 out of 174 countries surveyed in 2012, and TI's 2012 East African Bribery Index survey ranked Uganda as the most corrupt country in East Africa, with 51% of those surveyed characterizing their public institutions as “extremely corrupt,” 57% reporting they believe corruption in the country was getting worse, and just 22% of respondents reporting that they believed their government was making an effort to fight corruption.

In recent years, the Government has taken measures to tackle the problem of corruption. In 2009, Uganda passed an Anti-Corruption Act, criminalizing bribery, influence peddling, and a long list of other offenses. The Whistleblowers Protection Act of 2010 now provides some protection to citizens who report malfeasance. Other draft legislation, including an Anti-Counterfeiting Bill, an Anti-Money Laundering Bill, and a Proceeds of Corruption Assets Recovery Bill are pending in Parliament. An Anti-Corruption Division was opened in Uganda's High Court in 2009, increasing the number of corruption cases prosecuted in Uganda. In 2011, 44 corruption cases heard by the court resulted in convictions, up from 15 in 2010. In spite of these measures, however, in Uganda the public perception is that not enough is being done, and that high-level officials involved in corruption – especially politicians – are not seriously investigated or prosecuted. .

American firms have complained of lack of transparency in government procurement and possible collusion between competing business interests and government officials in tendering processes. Some foreign businesses have been urged to take on prominent local partners. In recent years, a number of high-profile government tenders for infrastructure projects were suspended following allegations of corruption. Some American firms, which are bound by the U.S. Foreign Corrupt Practices Act, suspect they have lost tenders to bidders from countries which have not criminalized the paying of bribes to foreign officials.

Bilateral Investment Agreements

Uganda is a member of the World Trade Organization. Uganda is also a member of the East African Community (EAC), along with Kenya, Tanzania, Burundi, and Rwanda. While the EAC now has a Customs Union and Common Market, the slow pace of regulatory reform, lack of harmonization, non-tariff barriers, and bureaucratic inefficiencies still hamper the free movement of goods, capital, and people. In recent years, a number of new agreements between the U.S. and the EAC has strengthened economic ties between the regions: in July 2008, the EAC signed a Trade Investment Framework Agreement (TIFA) with the United States; in June, 2012, the U.S. and EAC announced the launch of a new Trade and Investment Partnership, and in October, 2012 the EAC signed a letter of intent to launch a Commercial Dialogue with the U.S. In 2012, Uganda acceded to Common Market for Eastern and Southern Africa (COMESA) Free Trade Area and assumed the chairmanship of COMESA.

Uganda has also negotiated bilateral tax treaties with several nations, including China and South Africa. The EAC signed an Economic Partnership Agreement with the EU in 2007.

OPIC, Ex-Im Bank, and Other Investment Insurance Programs

Uganda is a signatory to the Multilateral Investment Guarantee Agency (MIGA) of the World

Bank and is a member of the International Center for the Settlement of Investment Disputes (ICSID). In 1965, the U.S. and Uganda signed an investment incentive agreement. Both parties signed an updated agreement in 1998, but the Ugandan Government has yet to ratify the renewed agreement.

Due to a bureaucratic issue that the Ugandan government has yet to resolve, the Ugandan government has failed to approve loan guarantees and investments from the Overseas Private Investment Corporation.

Labor

Education is underfunded in Uganda, and a 2011 Parliamentary report on the economy highlighted poor skills and education as one of the main obstacles to Uganda improving its competitiveness. In 2008, Uganda passed the Business, Technical, Vocational Education and Training Act to reform vocational education and skills development and make it more employment-oriented. However, a number of the reforms have yet to be implemented, and funding for the initiative remains low. In 2011, with donor support, the Uganda Petroleum Institute began teaching vocational skills needed to fill jobs in the oil sector. Uganda's prestigious Makerere University graduates thousands of students a year, but youth unemployment is high due to lack of jobs, providing a ready workforce for investors needing educated local employees.

Most urban Ugandans speak English, though many speak it only as a second language to one of 33 local languages spoken in Uganda. Labor unrest is sporadic in Uganda, and labor unions are not strong. Under the current arrangement, employers must contribute 10% of an employee’s gross salary to the National Social Security Fund (NSSF). The Uganda Retirement Benefits Regulatory Authority Act 2011, which provides a framework for the establishment and management of retirement benefits schemes for both the public and private sectors, will add competition to the NSSF and liberalize the pension sector. Ugandan labor laws specify procedures for termination of employment and termination payments. Foreign nationals must have a permit to work in Uganda.

Uganda cooperates with the International Labor Organization (ILO) and has ratified all eight ILO conventions. The National Organization of Trade Unions (NOTU) has 20 member unions. Its rival, the Central Organization of Free Trade Unions (COFTU), also has 20 unions. Union officials estimate that nearly half of the two million people working in the formal sector belong to unions. Four labor reform bills passed by the Parliament in 2006 were aimed at improving labor rights in Uganda, but some of the laws have yet to be implemented. The new laws include provisions to reduce the minimum number of workers required to establish a union from 1,000 to 20, remove the requirement that at least 15% of employees join a union before management is required to engage in collective bargaining, and set new timeframes for union recognition, collective bargaining and strikes.

Uganda employs 100 district-based labor officers to enforce labor standards, inspect workplaces and process worker and management complaints. This mechanism contributes to the enforcement of labor standards, but lack of staffing and resources limits its effectiveness. The

Ministry of Gender, Labor, and Social Development is working to strengthen the capacity of existing labor officers.

In May 2007, Uganda launched its national child labor policy, and comprehensive anti-trafficking in persons legislation was passed in 2009, but financial constraints have prevented the policies from being fully implemented. There are active programs underway, with support from the ILO and the U.S. Department of Labor, to combat child labor, but the practice nevertheless remains a concern in Uganda, particularly in the informal sector.

Foreign Trade Zones/Free Ports

A Free Zones Bill awaiting Cabinet approval would, if enacted, authorize the development, marketing, maintenance and supervision of free trade zones in Uganda.

Foreign Direct Investment Statistics

The investment values quoted below should not be relied upon for any investment decision. The figures provided by the UIA are highly variable and the values tracked are only for projects listed. No investors provide updates after the initial registration. FDI statistics are provided by the World Bank. Any discrepancies with previous reports are a result of updated data.

Net FDI (million $)	FY07	FY08	FY09	FY10	FY11
Inflows	792.3	728.9	841.6	543.9	796.9
Outflows (Residual)	---	---	---	---	---

Value of Projects Licensed by the Uganda Investment Authority (listed in million $)					
Sector	2007	2008	2009	2010	2011
Agriculture, Hunting, Forestry and Fisheries	28.99	60.89	203.27	664.55	225.40
Community, Social and Personal Services	41.06	34.10	66.35	32.57	8.26
Construction	223.83	58.10	175.88	125.70	41.80
Electricity, Gas and Water	742.50	173.34	69.93	12.57	70.67
Financing, Insurance, Real Estate, Tourism, and Business Services	109.90	380.89	309.84	294.97	264.16
Manufacturing	325.36	641.23	577.36	327.20	638.91
Mining and Quarrying	88.25	30.36	53.80	103.31	15.92
Transport, Communication and Storage	444.81	946.12	84.65	49.33	8.49
Wholesale & Retail Trade, Catering & Accommodation	218.33	55.90	31.04	62.85	21.47

Services					
Total	**2223.03**	**2380.93**	**1571.82**	**1673.03**	**1295.08**